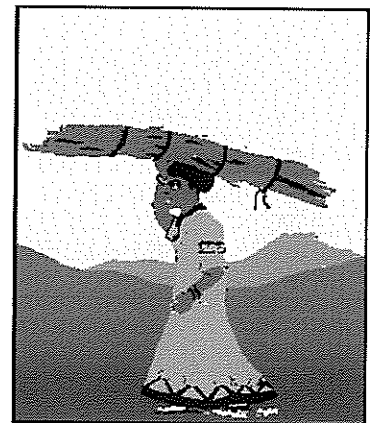
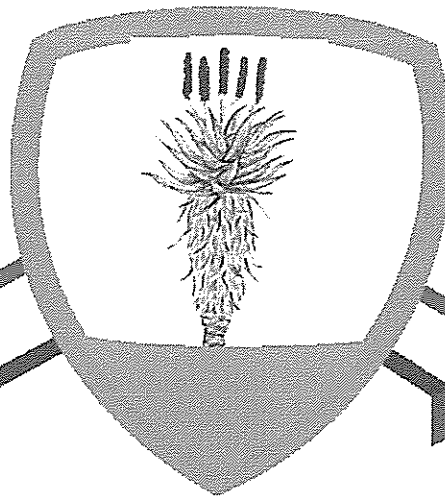


N.L.M.



NYANDENI LOCAL MUNICIPALITY

Nyandeni Local Municipality
Annual Financial Statements
for the year ended 30 June 2021

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

General Information

Legal form of entity	Municipality, Demarcation Code: EC155
Nature of business and principal activities	Nyandeni Local Municipality is a South African Category 3 municipality as defined by the Municipal Structures Act No.117 of 1998. The Municipality's operations are governed by the Constitution, Municipal Finance Management Act 56 of 2003, The Municipal Structure's Act 117 of 1998, Municipal Systems Act 32 of 2000 and various legislation and regulations.
Areas of operation	The Nyandeni Local Municipality includes the following areas: Libode Ngqeleni
Executive Committee	Clr M.D. Ngqondwana - Mayor Clr N.P. Matanda - Speaker Clr M.R. Mtobela - Chief Whip Clr Z. Mevana - Portfolio Head Budget & Treasury Clr M.P. Diniso - Portfolio Head Planning, Research and IGR Clr Z. Nondlevu - Portfolio Head Infrastructure Development Clr W. Ngaveli - Portfolio Head Community Services & Public Safety Clr T. Matika-Mncube - Portfolio Head Corporate Services Clr N. Thiyeka - Portfolio Head LED & Rural Development Clr P. Godongwana - Portfolio Head Human Settlement, Spatial Planning & Disaster Management Clr V.B. Zondani - Portfolio Head Special Programs Unit Clr M. Mkrokelwa - Mayors Office
Section 79 Councillors	Clr N.P. Ntoza - Women's Caucus Clr F. Gaxeni - Members Interest Clr X.A. Dlani - Public Participation & Petition Clr N. Tyopo - Municipal Public Accounts Committee
Councillors	Clr Z. Mchithakali Clr N. Nonkothama Clr F. Vatsa Clr S. Mbiyozo Clr T. Zweni Clr P. Matinise Clr M.S. Qaqa Clr P. Madwantsi Clr L. Mziba Clr N. Mchithakali Clr N. Gqetywa Clr E.P. Mkwelanga Clr P.N. Tswina Clr S.J. Soka Clr S. Mavume Clr S. Ntinta Clr B. I Mayo Clr L. Tshotsho Clr Z. Matomela Clr S.S. Nogumla Clr V. Nomqonde Clr G. Mfakanye

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

General Information

	Clr N. Tshotsho Clr M. Langa Clr C.M. Kuzo Clr Z. Bodoza Clr Y Sitsheke Clr M.T. Mkhosana Clr Z. Mantantana Clr N. Nonkonyana Clr A. Nkunzi Clr M.K. Tshatshelo Clr T. Macingwane Clr T.H. Mbiko Clr N. Jim Clr M. Hoya Clr J. Maqubela Clr N. Yehana Clr N.L. Vanda Clr F. Mbodloyi Clr X. Pakade Clr N.N. Devete Clr C. Nazo Clr M. John Clr M.C. Mbangiswana Clr F.I. Rhozani Clr N. Mjajubana
Grading of local authority	3
Chief Finance Officer (CFO)	B.K Benxa
Acting accounting Officer Accounting officer	Z Masumpa (Appointed 18-12-20) N.Nomandela(Suspended 17-12-20)
Registered office	BN Nomandela drive Libode 5160
Postal address	Private Bag X 504 Libode 5160
Contact details	Tel: 047 5555 000 Fax: 047 5550 202
Website	nyandenilm.gov.za
Bankers	First National Bank, Mthatha Standard Bank, Mthatha and Nedbank, Mthatha
Auditors	Office of the Auditor General (Eastern Cape) Registered Auditors

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

General Information

Attorneys

J.A. Le roux Attorneys
A.S. Zono & Associates
Sigqibo Maqambayi Attorneys
N.Z Mtshabe Incorporated
Tonise Attorneys
Luzipho Attorneys

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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GRAP	Generally Recognised Accounting Practice
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
VAT	Value Added Tax
LGSETA	Local Government Sector Education and Training Authority
EPWP	Expanded Public Work Program
INEG	Integrated National Electrification Grant
NLM	Nyandeni Local Municipality
UIF	Unemployment Insurance Fund
SDL	Skills Development Levy
PAYE	Pay As You Earn

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, she sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

I certify that the salaries, allowances and benefits of councillors as disclosed in note 31 to these financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act, Act 20 of 1998 and the Minister of Provincial and Local Government's determination in accordance with the Act.

The annual financial statements set out on page 6 to 78 which have been prepared on the going concern basis, were approved on 31 August 2021 and were signed on its behalf by:



Z Masumpa
Acting Accounting officer

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Position as at 30 June 2021

	Note(s)	2021 R	2020 Restated* R
Assets			
Current Assets			
Cash and cash equivalents	3	340 475 110	244 007 928
Receivables from exchange transactions	4	32 926	23 221
Statutory receivables	5	3 037 153	2 754 311
Inventories	6	1 024 848	373 600
VAT receivable	7	3 157 585	5 332 077
		347 727 622	252 491 137
Non-Current Assets			
Investment property	8	78 249 031	73 754 900
Property, plant and equipment	9	647 484 846	586 284 424
Intangible assets	10	1 348 146	822 731
		727 082 023	660 862 055
Total Assets		1 074 809 645	913 353 192
Liabilities			
Current Liabilities			
Payables from exchange transactions	12	20 162 392	16 497 804
Income received in advance	13	1 022 650	881 131
Retention	14	12 494 989	10 567 962
Unspent conditional grants and receipts	15	-	5 859 744
Finance lease obligation	16	64 764	277 311
Employee benefit obligation	17	1 460 000	580 000
		35 204 795	34 663 952
Non-Current Liabilities			
Finance lease obligation	16	-	64 764
Employee benefit obligation	17	6 861 000	6 518 000
Provisions	18	9 735 120	9 052 533
Danger Allowance	57	693 700	693 700
		17 289 820	16 328 997
Total Liabilities		52 494 615	50 992 949
Net Assets		1 022 315 030	862 360 243
Accumulated surplus		1 022 315 031	862 360 230
Total Net Assets		1 022 315 031	862 360 230

* See Note 53

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Performance

	Note(s)	2021 R	2020 Restated* R
Revenue			
Revenue from exchange transactions			
Sale of goods	19	607 728	868 944
Service charges	20	441 158	325 920
Rental of facilities and equipment	21	78 554	197 994
Agency services	22	1 221 762	935 217
Licences and permits	23	4 124 134	2 671 626
Operating revenue	24	304 179	1 347 722
Interest received - investment	25	12 451 652	16 137 657
Total revenue from exchange transactions		19 229 167	22 485 080
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	26	16 586 710	16 668 646
Interest and rent on land	27	1 873 313	950 341
Transfer revenue			
Government grants & subsidies	28	433 697 139	355 869 046
Fines, Penalties and Forfeits	29	329 392	2 709 949
Total revenue from non-exchange transactions		452 486 554	376 197 982
Total revenue	30	471 715 721	398 683 062
Expenditure			
Employee related costs	31	(151 064 488)	(140 974 696)
Remuneration of councillors	32	(23 952 406)	(24 288 814)
Depreciation and amortisation	33	(39 917 511)	(35 680 180)
Finance costs	34	(18 546)	(62 560)
Lease rentals on operating lease	35	(379 561)	(60 727)
Debt Impairment	36	(6 755 578)	(3 095 201)
Contracted services	37	(40 918 662)	(52 781 270)
Transfers and Subsidies	38	(8 547 651)	(4 603 917)
Provision for landfill site	18	-	(5 948 091)
Inventory consumed	39	(5 210 215)	(4 775 708)
General Expenses	40	(38 566 780)	(33 929 219)
Total expenditure		(315 331 398)	(306 200 383)
Operating surplus		156 384 323	92 482 679
Loss on disposal of assets and liabilities	41	(943 192)	(1 083 377)
Fair value adjustments	42	4 514 081	2 808 700
Actuarial gains/losses	17	215 000	1 508 625
Inventories (write-downs)	6	(215 423)	-
		3 570 466	3 233 948
Surplus for the year		159 954 789	95 716 627

* See Note 53

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Opening balance as previously reported	735 357 947	735 357 947
Adjustments		
Correction of errors	31 285 656	31 285 656
Balance at 01 July 2019 as restated*	766 643 603	766 643 603
Changes in net assets		
Surplus for the year	95 716 627	95 716 627
Total changes	95 716 627	95 716 627
Restated* Balance at 01 July 2020	862 360 242	862 360 242
Changes in net assets		
Surplus for the year	159 954 789	159 954 789
Total changes	159 954 789	159 954 789
Balance at 30 June 2021	1 022 315 031	1 022 315 031

* See Note 53

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Cash Flow Statement

		2021	2020
	Note(s)	R	Restated* R
Cash flows from operating activities			
Receipts			
Property rates		12 365 424	13 715 843
Grants		427 837 395	361 728 790
Interest income		12 451 652	16 137 657
Other receipts		6 206 486	9 057 843
		<u>458 860 957</u>	<u>400 640 133</u>
Payments			
Employee costs		(169 771 749)	(163 756 614)
Suppliers		(91 828 123)	(96 660 584)
		<u>(261 599 872)</u>	<u>(260 417 198)</u>
Net cash flows from operating activities	45	<u>197 261 085</u>	<u>140 222 935</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(101 998 327)	(92 602 917)
Proceeds from sale of property, plant and equipment	41&9	173 604	-
Proceeds from sale of investment property	8	19 950	-
Purchase of other intangible assets	10	(761 958)	(139 194)
Net cash flows from investing activities		<u>(102 566 731)</u>	<u>(92 742 111)</u>
Cash flows from financing activities			
Movement in income received in advance		141 519	332 269
Movement in retention		1 927 027	(566 369)
Movement in danger allowance		-	693 700
Finance lease payments		(295 857)	(550 534)
Net cash flows from financing activities		<u>1 772 689</u>	<u>(90 934)</u>
Net increase/(decrease) in cash and cash equivalents		<u>96 467 043</u>	<u>47 389 890</u>
Cash and cash equivalents at the beginning of the year		244 007 928	196 618 038
Cash and cash equivalents at the end of the year	3	<u>340 475 111</u>	<u>244 007 928</u>

* See Note 53

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Sale of goods	623 759	250 000	873 759	607 728	(266 031)	1
Service charges	259 324	-	259 324	441 158	181 834	2
Rental of facilities and equipment	113 404	-	113 404	78 554	(34 850)	3
Agency services	774 588	-	774 588	1 221 762	447 174	4
Licences and permits	4 924 144	-	4 924 144	4 124 134	(800 010)	5
Operational revenue	1 049 000	(4 600)	1 044 400	304 179	(740 221)	6
Interest received - investment	16 201 303	-	16 201 303	12 451 652	(3 749 651)	7
Total revenue from exchange transactions	23 945 522	245 400	24 190 922	19 229 167	(4 961 755)	

Revenue from non-exchange transactions

Taxation revenue

Property rates	16 615 947	-	16 615 947	16 586 710	(29 237)	8
Interest, Dividends and Rent on Land	1 112 618	-	1 112 618	1 873 313	760 695	9

Transfer revenue

Government grants & subsidies	369 532 000	70 802 000	440 334 000	433 697 139	(6 636 861)	10
Fines, Penalties and Forfeits	461 456	-	461 456	329 392	(132 064)	11

Total revenue from non-exchange transactions	387 722 021	70 802 000	458 524 021	452 486 554	(6 037 467)	
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Total revenue	411 667 543	71 047 400	482 714 943	471 715 721	(10 999 222)	
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Expenditure

Personnel	(167 465 980)	(10 940 573)	(178 406 553)	(151 064 488)	27 342 065	12
Remuneration of councillors	(25 455 497)	-	(25 455 497)	(23 952 406)	1 503 091	13
Depreciation and amortisation	(56 720 593)	-	(56 720 593)	(39 917 511)	16 803 082	14
Finance costs	(80 000)	-	(80 000)	(18 546)	61 454	15
Lease rentals on operating lease	(1 800 000)	427 534	(1 372 466)	(379 561)	992 905	16
Debt Impairment	(3 697 386)	(7 612 000)	(11 309 386)	(6 755 578)	4 553 808	17
Contracted Services	(67 006 102)	(16 460 149)	(83 466 251)	(40 918 662)	42 547 589	18
Transfers and Subsidies	(5 616 388)	(12 463 038)	(18 079 426)	(8 547 651)	9 531 775	18
Sale of goods/Inventory	(5 727 778)	(5 419 485)	(11 147 263)	(5 210 215)	5 937 048	18
General Expenses	(64 131 941)	(9 207 275)	(73 339 216)	(38 566 780)	34 772 436	18

Total expenditure	(397 701 665)	(61 674 986)	(459 376 651)	(315 331 398)	144 045 253	
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Operating surplus	13 965 878	9 372 414	23 338 292	156 384 323	133 046 031	
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Loss on disposal of assets and liabilities	85 844 619	21 234 769	107 079 388	(943 192)	(108 022 580)	19
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Fair value adjustments	-	-	-	4 514 081	4 514 081	20
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Actuarial gains/losses	(50 000)	-	(50 000)	215 000	265 000	20
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Inventories losses/write-downs	-	-	-	(215 423)	(215 423)	21
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	85 794 619	21 234 769	107 029 388	3 570 466	(103 458 922)	
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Surplus before taxation	99 760 497	30 607 183	130 367 680	159 954 789	29 587 109	
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Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	99 760 497	30 607 183	130 367 680	159 954 789	29 587 109	

Reconciliation

Statement of Financial Performance Variance Analysis

- 1. Sale of goods** - These are consumer driven activities , and tender document sale is a major activity to the variance as there were less sales as compared to previous years.
- 2. Service charges** - The municipality collected more than was budgeted. This is due to the increased collection on refuse removal in both towns.
- 3 Rental of facilities** - The municipality collected less due to the renovations in our community hall that took longer period to be completed.
- 4. Agency fees** - The municipality collected more in the Registering Authority site at Ngqeleni. This is due to the influx of customers coming from neighbouring towns.
- 5. Licences and permits** - These are consumer driven revenues. There has been a decrease in number of customers applying for both learner licences and driver licences.
- 6. Operational Revenue** - Operational revenue include monies received as a result of deductions made by the municipality to staff at large and councillors in relation to private calls
- 7. Interest recieved** - The municipality received less than what was budgeted due to the monies that were not recieved such as grant for animal feed processing. These grants are normally invested in a short term deposit and generate interest for the municipality.
- 8. Property Rates** - The variance is due to changes in few property values during the current year.
- 9. Interest and rent on land** - The variance is due to the enforcement of credit control policy which led to charging of interest on arrear accounts
- 10. Government grants** - The variance is due to the non-approval of roll over by treasury as well as disaster grant relief that was not received in the current year.
- 11. Fines, Penalties and Forfeits** - The variance is due to the traffic fines that have decreased as there was less mobility and traffic. There were stringent controls which discouraged contact between officials and drivers
- 12. Personnel** - The variance is due the posts that were vacant and later filled, and there were very few employees that qualified for the progression percentage in the current year.
- 13. Remuneration of Councillors** - Councillors salaries are paid in line with the upper limits. The Councillors did not receive salary increase during the current year
- 14. Depreciation and amortisation** - The depreciation is budgeted based on the anticipated of the completed infrastructure assets that are normally transferred from the work-in-progress. There has been less number of completed assets as compared to previous year.
- 15. Finance costs** - The variance is due to the decrease in payments made for leased photocopying machines as contracts are coming to an end.

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

16. **Lease rentals** - These variance is due to the fact that majority lease rental contracts have come to an end in the current year.

17. **Debt impairment** - The variance is due to the reduction of rebates that were not allowed in the government accounts

18. **Contracted services, Transfers & Subsidies, Sale of Inventory and General Expenses** - The variance is due to the implementation of the cost containments measures that aimed at reducing the municipal expenditures, and programs were revised due to additional money received from Treasury for operations.

19. **Gains/(Loss) on disposal of assets and liabilities** - This is due to the surplus that was used during budget transferred from reserves to fund the operations.

20. **Fair value adjustment and Actuarial gains/(loss)** - The municipality did not budget for these items as they are non-cash items.

21. **Inventories losses/write-downs** - These are items identified as obsolete and written down at year end.

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

Statement of Financial Position

Assets

Current Assets

Inventories	253 475	-	253 475	1 024 848	771 373	1
Statutory receivables	13 176 520	-	13 176 520	3 037 153	(10 139 367)	2
VAT receivable	-	-	-	3 157 585	3 157 585	3
Consumer debtors	376 358	-	376 358	32 926	(343 432)	2
Cash and cash equivalents	197 929 243	(6 600 015)	191 329 228	340 475 110	149 145 882	4
	211 735 596	(6 600 015)	205 135 581	347 727 622	142 592 041	

Non-Current Assets

Investment property	70 946 200	-	70 946 200	78 249 031	7 302 831	5
Property, plant and equipment	496 983 418	34 305 705	531 289 123	647 484 846	116 195 723	6
Intangible assets	363 338	950 000	1 313 338	1 348 146	34 808	7
	568 292 956	35 255 705	603 548 661	727 082 023	123 533 362	

Total Assets

	780 028 552	28 655 690	808 684 242	1 074 809 645	266 125 403	
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Liabilities

Current Liabilities

Finance lease obligation	-	-	-	64 764	64 764	9
Payables from exchange transactions	29 274 198	-	29 274 198	20 162 392	(9 111 806)	8
VAT payable	5 316 626	-	5 316 626	-	(5 316 626)	3
Employee benefit obligation	-	-	-	1 460 000	1 460 000	9
Income received in advance	(548 862)	-	(548 862)	1 022 650	1 571 512	11
Retention	11 134 331	-	11 134 331	12 494 989	1 360 658	10
	45 176 293	-	45 176 293	35 204 795	(9 971 498)	

Non-Current Liabilities

Finance lease obligation	1 844 500	-	1 844 500	-	(1 844 500)	9
Employee benefit obligation	1 075 243	-	1 075 243	6 861 000	5 785 757	9
Provisions	3 104 442	-	3 104 442	9 735 120	6 630 678	9
Danger Allowance	-	-	-	693 700	693 700	
	6 024 185	-	6 024 185	17 289 820	11 265 635	

Total Liabilities

	51 200 478	-	51 200 478	52 494 615	1 294 137	
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Net Assets

	728 828 074	28 655 690	757 483 764	1 022 315 030	264 831 266	
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Net Assets

Net Assets Attributable to Owners of Controlling Entity

Reserves

Accumulated surplus	728 828 074	28 655 690	757 483 764	1 022 315 030	264 831 266	
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Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
<hr/>						
1. Inventories	- This is due to the inventory held for use at year end by the municipality.					
2. Statutory Receivables, Consumer Debtors	- These are predominantly consumer driven activities.					
3. Vat Receivable/Payable	- The municipality did not budget as all of its grants and expenditure is budgeted inclusive of vat					
4. Cash and cash equivalents	- The municipality diversified its short term investment portfolio in the current year					
5. Investment Property	- The variance is due to the fair value adjustment.					
6. Property, plant and Equipment	- The municipality transferred projects from work-in-progress both funded by Municipal Infrastructure grant as well internally generated funds.					
7. Intangible assets	- The municipality acquired a number of softwares and systems including electronic document management system.					
8. Payables from Exchange	- There has been a decrease in creditors accrual in the current year.					
9. Employee benefit obligations, Finance leases and Provisions	- All of these items are budgeted under provisions , and they have increased due to the provision of land fill site rehabilitation and long service bonus.					
10. Retention	- The variance is due to the amount of monies held for projects that are completed but final retention were not released at year end as they were not due yet.					
11. Income received in advance	- These are the accounts that have paid more at year end.					

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

Cash Flow Statement

Cash flows from operating activities

Receipts

Taxation	12 807 365	-	12 807 365	12 365 424	(441 941)	1
Grants	409 121 748	69 968 000	479 089 748	427 837 395	(51 252 353)	2
Interest income	14 319 521	-	14 319 521	12 451 652	(1 867 869)	3
Other receipts	9 079 160	-	9 079 160	6 206 486	(2 872 674)	4
	445 327 794	69 968 000	515 295 794	458 860 957	(56 434 837)	

Payments

Suppliers and Employees	(276 313 029)	(18 057 635)	(294 370 664)	(262 263 905)	32 106 759	5
Finance costs	-	-	-	(18 546)	(18 546)	6
	(276 313 029)	(18 057 635)	(294 370 664)	(262 282 451)	32 088 213	

Net cash flows from operating activities	169 014 765	51 910 365	220 925 130	196 578 506	(24 346 624)	
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Cash flows from investing activities

Purchase of property, plant and equipment	(140 131 145)	10 002 178	(130 128 967)	(101 315 737)	28 813 230	7
Proceeds from sale of property, plant and equipment	-	-	-	173 604	173 604	8
Proceeds from sale of investment property	-	-	-	19 950	19 950	9
Purchase of other intangible assets	-	-	-	(761 958)	(761 958)	10
Net cash flows from investing activities	(140 131 145)	10 002 178	(130 128 967)	(101 884 141)	28 244 826	

Cash flows from financing activities

Movement in income received in advance	-	-	-	141 519	141 519	11
Movement in retention	-	-	-	1 927 027	1 927 027	12
Finance lease payments	-	-	-	(295 857)	(295 857)	13

Net cash flows from financing activities	-	-	-	1 772 689	1 772 689	
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Net increase/(decrease) in cash and cash equivalents	28 883 620	61 912 543	90 796 163	96 467 054	5 670 891	
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Cash and cash equivalents at the beginning of the year	-	-	-	244 007 928	244 007 928	
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Cash and cash equivalents at the end of the year	28 883 620	61 912 543	90 796 163	340 474 982	249 678 819	
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Reconciliation

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

Variance analysis - Cash flow statement

1. **Taxation** - This is due to low collection as a result of COVID.
2. **Grants** - The municipality did not receive the grant relating to animal feed processing during the current year.
3. **Interest Income** - Due to the grants that were originally budgeted for but not received at year end, anticipated interest to be realised was lesser.
4. **Other receipts** - The municipality collected lesser due to COVID 19 pandemic.
5. **Suppliers and Employees** - This is due to the cost containment measures that have been implemented by the institution, as well the posts that were vacant, and filled later.
6. **Finance costs** - Budget was provided for in the suppliers and employees.
7. **Purchase of property, plant and equipment** - The municipality transferred less than what was anticipated to be transferred from work-in-progress
8. **Proceeds from sale of property, plant and equipment** - The municipality identified the properties for disposal at year, and there was no budget provided for.
9. **Proceeds from sale of investment property** - The municipality identified the vacant land for transfer, and there was no budget provided for.
10. **Purchase of intangibles** - The municipality acquired some intangibles assets and its budget was included in property, plant and equipment.
11. **Income received in advance** - The customers paid more than what was anticipated as a result their accounts had more credit.
12. **Retention** - Monies due to be paid by the municipality in relation to retentions was budgeted for under provisions, and not released at year end.
13. **Finance Lease Obligation** - These were provided for under property, plant and equipment

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand, rounded off to the nearest Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

Post-retirement benefits

The present value of the post-retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 17.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.5 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land and Buildings	Straight-line	7 - 34 years
Plant and machinery	Straight-line	2 - 50 years
Motor vehicles	Straight-line	5 - 10 years
Office equipment	Straight-line	2 - 17 years
IT equipment	Straight-line	2 - 14 years
Infrastructure	Straight-line	2 - 100 years
Community	Straight-line	5 - 50 years

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.5 Property, plant and equipment (continued)

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.6 Intangible assets

Intangible asset:

An identifiable non-monetary asset without physical substance. An asset is a resource that is controlled by the entity as a result of past events (for example purchase or self-creation) and from which future economic benefits (inflows of cash or other assets) are expected.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software	Straight-line	5 years

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.6 Intangible assets (continued)

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The amortisation charge for each period is recognised in surplus or deficit.

1.7 Financial instruments

Identification Criteria

A financial asset is cash, a residual interest in another entity, a contractual right to receive cash or another financial asset from another entity; or exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity; or exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit - held for trading
- Financial liabilities at fair value through surplus or deficit - held for trading

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit include dividends or similar distributions and interest.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.7 Financial instruments (continued)

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within annual financial statements. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against municipality in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value.

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.7 Financial instruments (continued)

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
 - has transferred substantially all the risks and rewards of the asset, or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

1.8 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.8 Statutory receivables (continued)

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.8 Statutory receivables (continued)

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
 - derecognise the receivable; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Nyandeni Local Municipality

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1.9 Leases (continued)

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expenses over the lease term. Any contingent rents are expenses in the period in which they are incurred.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Nyandeni Local Municipality

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Nyandeni Local Municipality

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Nyandeni Local Municipality

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Nyandeni Local Municipality

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Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

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Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Nyandeni Local Municipality

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Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.13 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

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Accounting Policies

1.13 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Nyandeni Local Municipality

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Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Nyandeni Local Municipality

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Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

Nyandeni Local Municipality

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Accounting Policies

1.13 Employee benefits (continued)

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.13 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.14 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of an activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 47.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.15 Commitments (continued)

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight-line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised using the effective interest rate method for financial instruments, and using the nominal interest rate method for statutory receivables. Interest levied on transactions arising from exchange or non-exchange transactions is classified based on the nature of the underlying transaction.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.18 Revenue

Revenue comprises of sales to customers and service rendered to customers. Revenue is stated at the invoice amount and is exclusive of value-added taxation.

1.19 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.20 Accounting by principals and agents

Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Nyandeni Local Municipality

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Accounting Policies

1.20 Accounting by principals and agents (continued)

Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether a municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that it is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

Recognition

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

1.21 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year

When the presentation or classification in financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.22 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.22 Unauthorised expenditure (continued)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.24 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.25 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

1.26 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2020/07/01 to 2021/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.27 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.27 Related parties (continued)

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.28 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.29 Cash and Cash Equivalent

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Nyandeni Local Municipality

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Notes to the Annual Financial Statements

	2021 R	2020 R
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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2021 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2021	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2021	Unlikely there will be a material impact

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Short-term deposits	240 957 885	218 868 080
Other cash and cash equivalents	99 517 225	25 139 848
	340 475 110	244 007 928

Nyandeni Local Municipality

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Notes to the Annual Financial Statements

	2021 R		2020 R	
3. Cash and cash equivalents (continued)				
The municipality had the following bank accounts				
Account number / description	Bank statement balances		Cash book balances	
	30 June 2021	30 June 2020	30 June 2021	30 June 2020
First National Bank-Current Account No 62152951614	96 952 681	22 793 495	97 099 707	22 106 112
Standard Bank - Current Account no. 80847978	2 417 518	2 398 965	2 417 518	2 398 965
Standard Bank - Call Deposit - 388655305-403	371 439	366 609	371 439	366 609
Standard Bank - Call Deposit - 388680237-001	123 975	119 591	123 975	227 404
Standard Bank - Tiered Rates 388680172-002	3 660	3 640	3 660	343 890
Standard Bank - 32 Day Call 388655305-004	1 421 406	1 365 674	1 421 406	1 365 674
Standard Bank - Revolving Fund - 388655305-002	299 785	295 887	299 785	295 887
Standard Bank - Stanlib - 54781067	-	-	33 815	33 815
Standard Bank - Stanlib - IP005728	-	-	-	-
Standard Bank - Stanlib - IP005439	-	-	-	-
Standard Bank - 548736855-001	946 781	930 277	946 781	930 277
First National Bank - 32 Day Interest - 72399019737	19 038	18 836	19 038	18 836
First National Bank - Investment Acc - 74187331349	26 416 718	25 255 864	26 416 718	25 255 864
First National Bank - Call Acc - 74182161238 NLM Recoveries	10 571 107	10 359 196	10 571 107	10 359 196
First National Bank - Call Acc - 62159915704 MIG Call	13 518 445	12 637 432	13 518 445	12 637 432
First National Bank - Call Account - 62159915853	1 765 212	1 717 114	1 765 211	1 717 114
First National Bank - Call Account - 621599121751	4 585 720	4 433 773	4 585 720	4 433 773
First National Bank - Call Account - 62159915340 - LGSETA	83 447	81 191	83 447	81 191
First National Bank - Call Account - 62159922551-Property Valuation	205 197	199 606	205 196	199 606
First National Bank - Call Account - 62396357298 - EPWP	1 829 009	1 769 756	1 829 009	1 769 756
First National Bank - Call Account - 62396356539 - INEG	10 669 250	9 368 776	10 669 250	9 368 776
First National Bank - Call Account - 62582905710	2 403 883	2 338 383	2 403 882	2 338 383
First National Bank - Call Account - 74634166463	42 317	41 158	42 316	41 158
Standard Bank - Money Call Account no. 388680237-002	6 232 720	5 986 851	6 232 720	5 931 429
Nedbank Fixed Deposit - 03/7881143126	37 020 012	25 010 211	37 020 012	25 010 211
Nedbank Fixed Deposit - 03/7881138173	7 544 128	7 276 620	7 544 128	7 276 620
Nedbank Fixed Deposit - 03/7881138254	25 850 831	24 681 732	25 825 042	24 681 732
First National Bank Rates call - 74808491951	1 124 136	1 086 226	1 124 136	1 086 226
Nedbank-7881156317	87 585 094	83 731 992	87 041 534	83 731 992
Nedbank - 7881161760 - Disaster Relief	860 113	-	860 113	-
Total	340 863 622	244 268 855	340 475 110	244 007 928

Cash at the bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods, depending on the immediate cash requirements earn interest at the respective short term deposit rate.

Bank balance amounting to R340 475 110 include an amount of R13 518 445 which must be used on infrastructure projects.

4. Receivables from exchange transactions

Gross balances

Refuse	1 699 586	1 128 615
Other (specify)	2 134	2 076
	1 701 720	1 130 691

Less: Allowance for impairment

Refuse	(1 668 794)	(1 107 470)
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Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
4. Receivables from exchange transactions (continued)		
Net balance		
Refuse	30 792	21 145
Other (specify)	2 134	2 076
	32 926	23 221
Refuse		
Current (0 -30 days)	288 198	52 468
31 - 60 days	-	22 568
61 - 90 days	36 349	35 726
91 - 120 days	54 901	23 568
121 - 365 days	1 084 368	832 964
Interest	235 770	161 321
	1 699 586	1 128 615
Other (specify)		
> 365 days	2 134	2 076
Reconciliation of allowance for impairment		
Balance at beginning of the year	(1 107 470)	(801 800)
Contributions to allowance	(561 324)	(305 670)
	(1 668 794)	(1 107 470)
5. Statutory receivables		
Gross balance		
Traffic fines	1 918 397	1 741 197
Consumer debtors - Rates	25 429 565	19 129 669
	27 347 962	20 870 866
Less: Allowance for impairment		
Traffic fines	(15 498)	(486 081)
Consumer debtors - Rates	(24 295 311)	(17 630 474)
	(24 310 809)	(18 116 555)

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
5. Statutory receivables (continued)		
Net balance		
Traffic fines	1 902 899	1 255 116
Consumer debtors - Rates	1 134 254	1 499 195
	3 037 153	2 754 311

The carrying value of receivables are in line with their fair value. A credit period of 30 days are granted on initial recognition of the receivable, which is considered to be in line with industry norms. Interest is charged at 10% per annum on overdue accounts.

Traffic fines

These are the receivables for the fines in terms of the Road Traffic Regulations and the Municipal Bylaws where applicable. Fines are determined based on the Road Traffic Management Act.

Consumer debtors - Rates

These are the receivables as rates that are levied on the properties within the jurisdiction of Nyandeni Municipality. The rates that are applicable to a particular property is determined using the valuation roll.

The allowance for impairment of Receivables has been made for all consumer balances outstanding based on the payment ratio over 12 months. Based on these payment trends, management is satisfied that no further credit provision is required in excess of the current allowance. Rates are determined in accordance with the Municipal Property Rates Act.

Rates

Current (0 -30 days)	354 411	630 593
31 - 60 days	6 305	196 484
61 - 90 days	219 270	1 827 467
91 - 120 days	376 220	5 125 513
121 - 365 days	20 701 016	8 631 542
Interest	3 772 343	2 718 070
	25 429 565	19 129 669

6. Inventories

Stores and materials	1 240 271	373 600
Inventories (write-downs)	1 240 271 (215 423)	373 600 -
	1 024 848	373 600

During the financial year, stock at year end amounted to R1 240 271 (2020: R373 600). Stock amounting to R215 423 was damaged and obsolete, and had to be written down in relation to consumables

Inventory pledged as security

No inventories are held for sale as security for liabilities of the municipality.

7. VAT receivable

VAT	3 157 585	5 332 077
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Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
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8. Investment property

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	78 249 031	-	78 249 031	73 754 900	-	73 754 900

Reconciliation of investment property - 2021

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	73 754 900	(19 950)	4 514 081	78 249 031

Reconciliation of investment property - 2020

	Opening balance	Fair value adjustments	Total
Investment property	70 946 200	2 808 700	73 754 900

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The effective date of the revaluations was Wednesday, 30 June 2021. Revaluations were performed by an independent valuer, Mr M Lindstrom Registered Property Valuer of Penny Lindstrom valuations. The valuers are not connected to the municipality and have recent experience in location and category of the investment property being valued.

All properties registered in the name of the municipality were valued and categorised. After careful consideration, the valuer decided to increase the value of the investment properties, and suitable values were placed on each property based on the methodology identified for each category. Fair value was established for investment properties.

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R			2020 R		
9. Property, plant and equipment						
	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and Buildings	95 947 777	(14 153 191)	81 794 586	81 127 978	(10 634 502)	70 493 476
Plant and machinery	16 091 534	(7 953 997)	8 137 537	15 375 823	(7 368 342)	8 007 481
Motor vehicles	22 038 247	(13 354 448)	8 683 799	20 986 693	(11 648 115)	9 338 578
Office equipment	6 977 246	(4 531 395)	2 445 851	7 225 761	(4 340 073)	2 885 688
IT equipment	7 634 445	(4 984 137)	2 650 308	6 792 124	(4 392 071)	2 400 053
Infrastructure	597 640 949	(207 772 227)	389 868 722	556 378 328	(177 510 975)	378 867 353
Community	28 961 482	(8 891 173)	20 070 309	25 498 990	(7 412 918)	18 086 072
Work in progress	133 814 690	-	133 814 690	95 839 547	-	95 839 547
Finance leased assets	4 142 115	(4 123 071)	19 044	4 142 115	(3 775 939)	366 176
Total	913 248 485	(265 763 639)	647 484 846	813 367 359	(227 082 935)	586 284 424

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Adjustment as a result of a provision	Disposals	Transfers	Depreciation	Total
Land and Buildings	70 493 476	6 262 574	-	-	8 557 225	(3 518 689)	81 794 586
Plant and machinery	8 007 481	1 335 925	-	(89 247)	-	(1 116 622)	8 137 537
Motor vehicles	9 338 578	2 018 519	-	(846 070)	-	(1 827 228)	8 683 799
Office equipment	2 885 688	203 400	-	(103 372)	-	(539 865)	2 445 851
IT equipment	2 400 053	920 428	-	(78 107)	-	(592 066)	2 650 308
Infrastructure	378 867 353	20 016 767	682 586	-	20 563 267	(30 261 251)	389 868 722
Community	18 086 072	3 462 493	-	-	-	(1 478 256)	20 070 309
Work in progress	95 839 547	67 095 635	-	-	(29 120 492)	-	133 814 690
Finance leased assets	366 176	-	-	-	-	(347 132)	19 044
	586 284 424	101 315 741	682 586	(1 116 796)	-	(39 681 109)	647 484 846

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Adjustments as a result of a provision	Disposals	Transfers	Depreciation	Total
Land and Buildings	56 152 516	15 961 745	-	-	-	(1 620 785)	70 493 476
Plant and machinery	7 955 188	1 185 650	-	-	-	(1 133 357)	8 007 481
Motor vehicles	10 486 100	966 965	-	-	-	(2 114 487)	9 338 578
Office equipment	2 960 555	364 415	-	-	-	(439 282)	2 885 688
IT equipment	2 900 110	648 485	-	-	-	(1 148 542)	2 400 053
Infrastructure	349 749 289	11 642 326	5 650 687	(1 083 377)	39 819 807	(26 911 379)	378 867 353
Community	19 673 871	-	-	-	-	(1 587 799)	18 086 072
Work in progress	79 491 857	56 167 497	-	-	(39 819 807)	-	95 839 547
Finance leased assets	835 799	15 147	-	-	-	(484 770)	366 176
	530 205 285	86 952 230	5 650 687	(1 083 377)	-	(35 440 401)	586 284 424

Pledged as security

There is no Property Plant and Equipment pledged for security.:

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
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9. Property, plant and equipment (continued)

Assets subject to finance lease (Net carrying amount)

Finance leased assets	19 044	366 176
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Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Included within Buildings	Total
Opening balance	79 600 738	17 286 162	96 886 900
Additions/capital expenditure	59 992 766	2 291 844	62 284 610
Other movements [Retention on WIP]	3 763 672	-	3 763 672
Transferred to completed items	(29 120 492)	-	(29 120 492)
	114 236 684	19 578 006	133 814 690

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Included within Buildings	Total
Opening balance	72 952 267	6 539 617	79 491 884
Additions/capital expenditure	43 270 675	9 699 220	52 969 895
Other movements [Retention on WIP]	3 197 576	1 047 325	4 244 901
Transferred to completed items	(39 819 780)	-	(39 819 780)
	79 600 738	17 286 162	96 886 900

Reconciliation of leased assets- Office equipment

Opening balance carrying amount	366 176	835 799
Additions	-	15 147
Depreciation	(347 132)	(484 770)
	19 044	366 176

10. Intangible assets

	2021			2020		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 722 988	(893 192)	829 796	1 723 060	(900 329)	822 731
Intangible assets under development	518 350	-	518 350	-	-	-
Total	2 241 338	(893 192)	1 348 146	1 723 060	(900 329)	822 731

Reconciliation of intangible assets - 2021

	Opening balance	Additions	Amortisation	Total
Computer software	822 731	243 608	(236 543)	829 796
Intangible assets under development	-	518 350	-	518 350
	822 731	761 958	(236 543)	1 348 146

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
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10. Intangible assets (continued)

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Amortisation	Total
Computer software	923 316	139 194	(239 779)	822 731

Intangible assets in the process of being constructed or developed

Reconciliation of work in progress

Intangible under development	518 350	-
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Estimated remaining useful life is reviewed at each reporting period. The intangible assets have not been pledged as security

11. Change in estimate

Property, plant and equipment

The management of municipality realised, during their annual assessment of useful lives and residual values, in the beginning of 2020-2021 financial period that the pattern of service potential derived from depreciable assets has changed from that in previous periods. These depreciable assets are currently depreciated using the straight-line method over a useful life. As a result, management decided to change the remaining useful life of the depreciable assets. The following information relates to the depreciable assets. The effect of the change in useful life is the decrease in depreciation by R 4297242.99 in the current year.

Depreciation	2021	2022	2023	Total
Depreciation before change	6 919 574	6 919 574	6 919 574	20 758 722
Depreciation after change	(2 622 331)	(2 622 331)	(2 622 331)	(7 866 993)
	<u>4 297 243</u>	<u>4 297 243</u>	<u>4 297 243</u>	<u>12 891 729</u>

12. Payables from exchange transactions

Trade payables	803 696	593 857
Overtime payables	413 411	438 241
Sundry suppliers	25 796	25 796
Accrued leave pay	13 492 898	12 066 958
Accrued bonus	2 830 738	2 705 903
Creditors accrual	99 653	667 049
Danger allowance	2 496 200	-
	<u>20 162 392</u>	<u>16 497 804</u>

13. Income received in advance

Income received in advance	1 022 650	881 131
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14. Retention

Amounts withheld as surety on construction projects completed by awarded contractors. These amounts are recognised on payment certificates on stages of completion that have been paid to the contractors. The release of retentions is normally done 3 - 12 months after the project is certified as complete.

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
14. Retention (continued)		
Carrying amount of retention		
Opening balance	10 567 962	11 134 331
Increase /decrease in the carrying amount recognised in the period as a result of a change in the fair value of the assets to be distributed	1 927 027	(566 369)
	12 494 989	10 567 962
15. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Municipal infrastructure grant	-	5 025 744
Municipal disaster relief grant	-	834 000
	-	5 859 744
Movement during the year		
Balance at the beginning of the year	5 859 744	-
Additions during the year	427 837 395	99 449 520
Income recognition during the year	(433 697 139)	(93 589 776)
	-	5 859 744
The nature and extent of government grants recognised in the annual financial statements is an indication of other forms of government assistance from which the municipality has directly benefited.		
See note 28 for reconciliation of grants from National/Provincial Government.		
These amounts are invested in a ring-fenced investment until utilised.		
16. Finance lease obligation		
Minimum lease payments due		
- within one year	66 780	295 857
- in second to fifth year inclusive	-	66 780
less: future finance charges	66 780	362 637
	(2 016)	(20 562)
Present value of minimum lease payments	64 764	342 075
Present value of minimum lease payments due		
- within one year	64 764	277 311
- in second to fifth year inclusive	-	64 764
	64 764	342 075
Non-current liabilities	-	64 764
Current liabilities	64 764	277 311
	64 764	342 075

It is municipality policy to lease certain office equipment under finance leases.

The average lease term was 3.8 years and the average effective borrowing rate was 4% (2020: 4%).

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
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17. Employee benefit obligations

The Municipality offers employees Long Service Awards for every five years of service completed, from five years of service to 45 years of service, inclusive.

The amounts recognised in the statement of financial position are as follows:

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(8 321 000)	(7 098 000)
Non-current liabilities	(6 861 000)	(6 518 000)
Current liabilities	(1 460 000)	(580 000)
	(8 321 000)	(7 098 000)

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	7 098 000	7 099 729
Net expense recognised in the statement of financial performance	1 223 000	(1 729)
	8 321 000	7 098 000

Net expense recognised in the statement of financial performance

Current service cost	934 000	969 494
Interest cost	504 000	537 402
Actuarial (gains) / losses	(215 000)	(1 508 625)
	1 223 000	(1 729)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9,06 %	7,40 %
General earnings inflation rate (long-term)	5,76 %	4,02 %
Net effective discount rate	3,12 %	3,25 %

The municipality budgeted for a 6.50% increase as at 1 July 2021, and the earnings used in this valuation include this assumed general increase. The next general earnings increase was assumed to take place on 1 July 2022

Sensitivity Analysis

The extent to which the actual liability faced in the future by the municipality differs from these results will depend on the extent to which actual experience differs from the assumptions made.

The assumptions which tend to have the greatest impact on the results are:

- The general earnings inflation rate assumption;
- The discount rate assumption;
- The average retirement age of employees; and assumed rates of withdrawal of employees from service.

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R	
18. Provisions			
Reconciliation of provisions - 2021			
	Opening Balance	Additions	Total
Environmental rehabilitation	9 052 533	682 587	9 735 120
Reconciliation of provisions - 2020			
	Opening Balance	Additions	Total
Environmental rehabilitation	3 104 442	5 948 091	9 052 533
Environmental rehabilitation provision			
The municipality has a landfill site where it will need to rehabilitate the land at the end of its useful life. The rehabilitation costs determined are an estimate of the costs that will be incurred in order to meet the operational requirements of the site. The provision for landfill sites has increased in the current year as a result of the old landfill site that has been used to its full capacity and has been discontinued and the land needs to be restored.			
19. Sales of goods and rendering of services			
Advertisements	33 592	41 344	
Tender documents	457 243	496 293	
Building Plan Approval	98 893	322 407	
Clearance certificate	3 581	-	
Cemetery and Burial	12 278	5 267	
Entrance fees	2 141	2 303	
Library fees	-	1 330	
	607 728	868 944	
20. Service charges			
Refuse removal	441 158	325 920	
21. Rental of facilities and equipment			
Premises			
Premises	78 554	197 994	
22. Agency services			
Vehicle Registration	1 221 762	935 217	

The amount of R1 221 762 (2020: R935 217) is the amount of revenue collected on behalf of the Department of Transport. The municipality is entitled to 19% of the fees collected as per the agreement as compensation for the transactions carried out. There are no liabilities that has been incurred on behalf of the Department of Transport relating to the above arrangement.

The timing of the remittance received from the Department of Transport Eastern Cape is received on a monthly basis and there are no risks transferred from the principal to the agency

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
23. Licences and permits (exchange)		
Driving license testing centre	4 037 288	2 569 549
Vending and hawking	86 846	102 077
	4 124 134	2 671 626
24. Operating revenue		
Commission	304 179	1 347 722
25. Investment revenue		
Interest revenue		
Short term investments and call accounts	12 451 652	16 137 657
26. Property rates		
Rates received		
Property rates	16 780 111	16 668 650
Less: Income forgone	(193 401)	(4)
	16 586 710	16 668 646
Valuations		
Residential	178 042 400	178 042 400
Commercial	117 182 400	117 182 400
State	1 071 060 200	1 071 060 200
Municipal	430 075 000	430 075 000
Church	28 771 000	28 771 000
Public service infrastructure	14 000	14 000
Less: Income forgone	(22 230 000)	(22 230 000)
	1 802 915 000	1 802 915 000
Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2018. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. During the current year under review the municipality compiled the supplementary valuation roll which was completed in July 2021 for implementation in 2021/2022 financial year		
27. Interest and rent on land		
Interest - Receivables	1 873 313	950 341
28. Government grants and subsidies		
Operating grants		
Equitable share	331 405 744	262 068 000
Integrated national electrification programme	5 150 000	15 010 000
Expanded public works programme	1 699 000	1 444 000
Finance Management Grant	1 700 000	1 700 000
Library subsidies	700 000	700 000
Construction, Education and Training SETA	184 974	211 270
Covid Poverty Alleviation Fund	834 000	-
	341 673 718	281 133 270

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
28. Government grants and subsidies (continued)		
Capital grants		
Municipal Infrastructure Grant	74 699 000	55 818 256
Small town revitalisation	17 324 421	18 917 520
	92 023 421	74 735 776
	433 697 139	355 869 046
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	102 106 421	93 589 776
Unconditional grants received	331 590 718	262 279 270
	433 697 139	355 869 046
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
Municipal infrastructure grant		
Balance unspent at beginning of year	5 025 744	-
Current-year receipts	74 699 000	60 844 000
Conditions met - transferred to revenue	(79 724 744)	(55 818 256)
	-	5 025 744
Municipal disaster relief grant		
Balance unspent at beginning of year	834 000	-
Current-year receipts	-	834 000
Conditions met - transferred to revenue	(834 000)	-
	-	834 000
Expanded public works programme		
Current-year receipts	1 699 000	1 444 000
Conditions met - transferred to revenue	(1 699 000)	(1 444 000)
	-	-
Integrated national electrification programme		
Current-year receipts	5 150 000	15 010 000
Conditions met - transferred to revenue	(5 150 000)	(15 010 000)
	-	-
Finance management grant		
Current-year receipts	1 700 000	1 700 000
Conditions met - transferred to revenue	(1 700 000)	(1 700 000)
	-	-

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
28. Government grants and subsidies (continued)		
Library subsidies		
Current-year receipts	700 000	700 000
Conditions met - transferred to revenue	(700 000)	(700 000)
	-	-
Construction, Education and Training SETA		
Current-year receipts	184 974	211 270
Conditions met - transferred to revenue	(184 974)	(211 270)
	-	-
Small town revitalisation		
Current-year receipts	17 324 421	18 917 520
Conditions met - transferred to revenue	(17 324 421)	(18 917 520)
	-	-
29. Fines, Penalties and Forfeits		
Law Enforcement Fines	292 000	895 900
Pound Fees Fines	37 392	85 812
Retentions Forfeits	-	1 728 237
	329 392	2 709 949
30. Revenue		
Sale of goods	607 728	868 944
Service charges	441 158	325 920
Rental of facilities and equipment	78 554	197 994
Agency services	1 221 762	935 217
Licences and permits	4 124 134	2 671 626
Operational revenue	304 179	1 347 722
Interest received - investment	12 451 652	16 137 657
Property rates	16 586 710	16 668 646
Interest, Dividends and Rent on Land	1 873 313	950 341
Government grants & subsidies	433 697 139	355 869 046
Fines, Penalties and Forfeits	329 392	2 709 949
	471 715 721	398 683 062
The amount included in revenue arising from exchanges of goods or services are as follows:		
Sale of goods	607 728	868 944
Service charges	441 158	325 920
Rental of facilities and equipment	78 554	197 994
Agency services	1 221 762	935 217
Licences and permits	4 124 134	2 671 626
Operational revenue	304 179	1 347 722
Interest received - investment	12 451 652	16 137 657
	19 229 167	22 485 080

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
30. Revenue (continued)		
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	16 586 710	16 668 646
Interest, Dividends and Rent on Land	1 873 313	950 341
Transfer revenue		
Government grants & subsidies	433 697 139	355 869 046
Fines, Penalties and Forfeits	329 392	2 709 949
	452 486 554	376 197 982
31. Employee related costs		
Basic	88 398 084	82 774 905
Bonus	6 833 167	6 592 074
Medical aid - company contributions	8 965 276	8 669 261
UIF	563 877	557 847
SDL	1 165 271	1 101 762
Bargaining Council Levies	36 037	34 093
Leave pay provision charge	795 692	777 897
Defined contribution plans	1 438 000	1 506 896
Travel, motor car, accommodation, subsistence and other allowances	9 975 092	9 390 454
Overtime payments	8 214 304	8 909 189
Long-service awards	314 409	515 836
Acting allowances	511 883	357 973
Housing benefits and allowances	3 531 369	3 573 466
Pension/Provident Fund	13 955 072	13 199 488
Group Scheme	3 870 755	3 013 555
Danger Allowance	2 496 200	-
	151 064 488	140 974 696
During the financial year (17-12-2020) the municipal manager Mrs N. Nomandela was suspended and Ms Z. Masumpa was appointed as the acting municipal manager with effect from (18-12-2020). The municipality entered into negotiations and reached an amicable solution. The settlement and leave pay were effected on the 30th of June 2021		
Remuneration of Municipal Manager		
Annual Remuneration	895 957	1 019 855
Car allowance	177 947	225 976
Contribution to UIF, Medical and Pension funds	61 129	60 775
Cellphone allowance	23 726	23 596
Settlement	2 067 751	-
Leave pay	162 902	-
	3 389 412	1 330 202
Remuneration of Chief Financial Officer		
Annual Remuneration	903 202	909 884
Car allowance	159 388	145 302
Contribution to UIF, Medical and Pension funds	1 813	1 785
	1 064 403	1 056 971

Nyandeni Local Municipality

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Notes to the Annual Financial Statements

	2021 R	2020 R
31. Employee related costs (continued)		
Remuneration of Senior Manager planning and development		
Annual Remuneration	637 554	656 107
Car allowance	265 647	302 889
Contribution to UIF, Medical and Pension funds	108 072	98 653
Cellphone allowance	53 129	48 434
	1 064 402	1 106 083
Remuneration of Senior Manager Corporate Services		
Annual Remuneration	982 752	1 000 873
Car allowance	147 664	187 516
Contribution to UIF, Medical and Pension funds	1 813	1 785
Leave pay	166 745	-
	1 298 974	1 190 174
Remuneration of Senior Manager Infrastructure		
Annual Remuneration	472 035	721 504
Car allowance	194 808	353 818
Performance bonuses	-	52 808
Contribution to UIF, Medical and Pension funds	79 261	108 340
Cellphone allowance	38 962	53 277
Leave pay	117 702	-
	902 768	1 289 747
Remuneration of Senior Manager Community Services		
Annual Remuneration	637 554	655 912
Car allowance	265 647	280 480
Contribution to UIF, Medical and Pension funds	108 072	122 665
Cellphone allowance	53 129	48 434
Acting Allowance	153 723	-
	1 218 125	1 107 491
Ms Z. Masumpa was appointed as an Acting Municipal Manager as from 18 December 2020 up to 18 December 2020.		
Remuneration of Senior Manager Operations		
Annual Remuneration	796 943	796 618
Car allowance	212 518	239 354
Contribution to UIF, Medical and Pension funds	54 942	82 914
	1 064 403	1 118 886
Remuneration of Acting Senior Manager Infrastructure		
Annual Remuneration	661 077	-
Car Allowance	165 269	-
Bonus	55 089	-
Contribution to UIF, Medical and Pension Funds	170 526	-
Acting Allowance	8 263	-
Residential allowance	10 969	-
	1 071 193	-

Mr J. Yengane was appointed as Acting Senior Manager Infrastructure as from 18 December 2020 until 30 June 2021.

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
31. Employee related costs (continued)		
Remuneration of Acting Senior Manager Community Services		
Annual Remuneration	661 077	-
Car Allowance	165 269	-
Bonus	55 089	-
Contribution to UIF, Medical and Pension Funds	149 362	-
Acting allowance	8 263	-
Residential allowance	10 969	-
	1 050 029	-

Ms F. Mgwedane was appointed as Acting Senior Manager Community Services as from 18 December 2020 until 30 June 2021.

Danger allowance

The municipality paid a danger allowance as goodwill of the municipality in appreciation and recognition of the employees who may, on occasion or continuously, be subjected to life threatening situations in the course of duty during the lockdown and associated period as a result of COVID-19 pandemic

32. Remuneration of councillors

Mayor	860 859	860 859
Chief Whip	645 646	645 646
Full Time Executive Committee Members	1 939 699	2 322 184
Speaker	688 688	688 688
Part Time Councillors Allowance	17 389 956	16 962 750
Part Time Executive Committee Members	2 427 558	2 808 687
	23 952 406	24 288 814

In-kind benefits

The Mayor and Speaker are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor and Speaker have the use of Council owned vehicles for official duties.

Mayor

Remuneration	860 859	864 459
Cellphone Allowance	44 400	40 800
	905 259	905 259

Chief Whip

Remuneration	645 646	649 246
Cellphone Allowance	44 400	40 800
	690 046	690 046

Speaker

Remuneration	688 688	692 288
Cellphone Allowance	44 400	40 800
	733 088	733 088

Full Time Executive Committee Members

Remuneration	2 569 612	2 332 984
Cellphone Allowance	177 600	122 400
	2 747 212	2 455 384

Nyandeni Local Municipality

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Notes to the Annual Financial Statements

	2021 R	2020 R
32. Remuneration of councillors (continued)		
Part Time Councilor's Allowance		
Remuneration	13 893 930	17 106 750
Cellphone Allowance	2 244 930	2 040 000
	16 138 860	19 146 750
Part Time Executive Committee Members		
Remuneration	2 161 158	2 830 287
Cellphone Allowance	266 400	244 800
	2 427 558	3 075 087
33. Depreciation and amortisation		
Property, plant and equipment	39 681 107	35 440 401
Intangible assets	236 404	239 779
	39 917 511	35 680 180
34. Finance costs		
Finance leases	18 546	62 560
35. Lease rentals		
Equipment		
Contractual amounts	379 561	60 727
36. Debt impairment		
Contributions to debt impairment provision	6 755 578	3 095 201
37. Contracted services		
Outsourced Services		
Burial Services	55 218	-
Business and Advisory	3 720 597	5 013 384
Catering Services	861 662	2 449 156
Clearing and Grass Cutting Services	19 650	-
Illegal Dumping	953 363	411 768
Personnel and Labour	1 094 192	2 142 925
Professional Staff	38 333	43 788
Security Services	529 873	618 694
Translators, Scribes and Editors	518 348	449 150
Veterinary Services	-	43 106
Transport Services	194 303	359 386
Drivers Licence Cards	573 619	374 539
Consultants and Professional Services		
Business and Advisory	9 835 661	12 803 214
Infrastructure and Planning	9 261 293	18 628 051
Legal Cost	1 644 791	1 434 626

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
37. Contracted services (continued)		
Contractors		
Artists and Performers		
Building	91 700	21 000
Employee Wellness	25 962	5 594
Maintenance of Buildings and Facilities	239 321	248 685
Maintenance of Equipment	1 080 583	934 513
Maintenance of Unspecified Assets	848 305	969 637
Plants, Flowers and Other Decorations	9 158 214	5 744 314
Safeguard and Security	50 994	66 040
Sports and Recreation	113 680	-
Stage and Sound Crew	-	5 200
	9 000	14 500
	40 918 662	52 781 270
38. Grants and subsidies paid		
Other subsidies		
Domestic indigent		
Social relief	3 838 358	437 073
Rural development	1 079 415	640 941
Skill development and training	1 981 554	1 588 090
	1 648 324	1 937 813
	8 547 651	4 603 917
39. Inventory consumed		
Materials and supplies		
	5 210 215	4 775 708
40. General expenses		
Advertising	2 636 885	894 567
Auditors remuneration	3 406 125	2 842 129
Bank charges	55 743	30 048
Communication	4 307 908	5 973 695
Conferences and seminars	49 097	236 075
Consulting and professional fees	587 013	-
Electricity	1 743 697	1 078 540
Fuel and oil	2 973 467	2 066 112
Hire	1 840 687	987 166
IT expenses	1 190 848	84 882
Insurance	1 164 862	962 092
Learnerships	345 000	506 241
Motor vehicle expenses	272 601	38 512
Motor vehicle licensing	-	277 796
Packaging	2 091 820	-
Printing and stationery	187 553	116 737
Promotions and sponsorships	616 500	702 000
Protective clothing	1 841 917	1 720 507
Subscriptions and membership fees	29 285	25 208
Travel - local	6 771 602	8 215 892
Uniforms	330 476	549 879
Ward committee expenses	5 414 360	5 410 180
Workmen's compensation fund	709 334	1 210 961
	38 566 780	33 929 219

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
41. Disposal of assets		
Loss on disposal of assets	(943 192)	(1 083 377)
42. Fair value adjustments		
Investment property (Fair value model)	4 514 081	2 808 700
43. Auditors' remuneration		
Fees	3 406 125	2 842 129
44. Repairs and maintenance		
Property, plant and equipment	11 087 102	7 708 464
Repairs and maintenance relates to maintenance of municipal assets and hiring of plant and machinery for maintenance of access roads. In the prior financial year the municipality has hired plant and machinery for the maintenance of access roads.		
Included in the figure of repairs and maintenance an amount of R1 751 988 was paid for refurbishments of community halls in ward 19 and ward 24		
45. Cash generated from operations		
Surplus	159 954 789	95 716 627
Adjustments for:		
Depreciation and amortisation	39 917 511	35 680 180
Gain on sale of assets and liabilities	943 192	1 083 377
Fair value adjustments	(4 514 081)	(2 808 700)
Finance costs - Finance leases	18 546	62 560
Debt impairment	6 755 578	3 095 201
Movements in retirement benefit assets and liabilities	1 223 000	(1 729)
Movements in provisions	682 587	5 948 091
Changes in working capital:		
Inventories	(651 248)	(120 125)
Consumer debtors	(6 765 283)	(3 088 101)
Other receivables from non-exchange transactions	(282 842)	(814 572)
Payables from exchange transactions	3 664 588	(374 166)
VAT	2 174 492	(15 452)
Unspent conditional grants and receipts	(5 859 744)	5 859 744
	197 261 085	140 222 935
46. Financial instruments disclosure		
Categories of financial instruments		
2021		
Financial assets		
	At amortised cost	Total
Trade and other receivables from exchange transactions	32 926	32 926
Other receivables from non-exchange transactions	3 037 153	3 037 153
Cash and cash equivalents	340 475 110	340 475 110
	343 545 189	343 545 189

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Notes to the Annual Financial Statements

	2021 R	2020 R
46. Financial instruments disclosure (continued)		
Financial liabilities		
	At amortised cost	Total
Trade and other payables from exchange transactions	20 162 392	20 162 392
Retention	12 494 989	12 494 989
Danger allowance	693 700	693 700
Unspent conditional grants and receipts	-	-
	33 351 081	33 351 081
2020		
Financial assets		
	At amortised cost	Total
Trade and other receivables from exchange transactions	23 221	23 221
Other receivables from non-exchange transactions	2 754 311	2 754 311
Cash and cash equivalents	244 007 928	244 007 928
	246 785 460	246 785 460

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
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46. Financial instruments disclosure (continued)

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	16 497 804	16 497 804
Finance lease liability	342 075	342 075
Retention	10 567 962	10 567 962
Unspent conditional grants and receipts	5 859 794	5 859 794
Danger allowance	693 700	693 700
	<u>33 961 335</u>	<u>33 961 335</u>

Risk Management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk is the risk that a counterparty to a financial asset will fail to discharge an obligation and cause the municipality to incur a financial. Credit risk consist mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates and refuse.

Nyandeni Local Municipality endeavours to collect all debts owed to the municipality by sending statements monthly to remind debtors, levying of penalty charges and as a last resort hand over debtors to the debt collection agent. All rates and services are payables within 30 days from invoice date, refer to notes 4 & 5 for all balances outstanding longer than 30 days. These debtors represent all debtors at year end which defaulted on their credit terms.

Cash and cash equivalents consist of short term investments and the primary bank account of the municipality. Short term investments are held in two banking institutions namely First National Bank and Standard Bank, this ensures that the municipality enjoys diversified interest rates.

Financial Instruments

Receivable from non-exchange transactions	3 037 153	2 754 311
Receivable from exchange transactions	32 926	23 221
Cash and cash equivalents	340 475 110	244 007 928
	<u>343 545 189</u>	<u>246 785 460</u>

Market risk

Interest rate risk

Interest rate risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market interest rates not applicable to the municipality, there were no loans during the year.

Interest rate risk is not applicable to the municipality as there were no loans taken during the year and the penalty interest on outstanding debtors is fixed at 10%.

Price risk

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
46. Financial instruments disclosure (continued)		
Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those caused by interest rate risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer.		
The price risk is not applicable to the municipality as the municipality does not have financial assets with prices dependent on the market prices.		
47. Contingencies		
Contingent Liabilities		
1. Maqhawe construction vs Nyandeni Local Municipality	-	1 938 570
2. Tamsanqa Dotyeni vs Nyandeni Local Municipality	-	1 000 000
3. Selina Matanda vs Nyandeni Local Municipality	-	1 000 000
4. Mabandla vs Nyandeni Local Municipality	-	100 000
5. Makateko Tobile Wilson vs Nyandeni Local Municipality	11 000 000	11 000 000
6. Nonkumbulo Buso vs Nyandeni Local Municipality	400 000	400 000
7. Tiny Mandisa Buso vs Nyandeni Local Municipality	200 000	200 000
8. Vuyisile Alex Notay vs Nyandeni Local Municipality	200 000	200 000
9. Zukisani Zukile Mpeto vs Nyandeni Local Municipality	400 000	-
10. Phumzile Tokwe vs Nyandeni Local Municipality	400 000	-
11. Zameka Golode vs Nyandeni Local Municipality	200 000	-
12. Ndikuphiwe Qaku vs Nyandeni Local Municipality	200 000	-
13. Xhathalaza Mzontsundu vs Nyandeni Local Municipality	300 000	-
14. Nokwanda Mahlathi vs Nyandeni Local Municipality	300 000	-
	13 600 000	15 838 570

The following is the list of possible outcomes

1. Maqhawe Construction VS Nyandeni Local Municipality (Case No. 249/2014)

The municipality is being sued for a sum of R1 938 570 (One million Nine Hundred and Thirty Eight Thousand Five Hundred and Seventy Rands) by the contractor who claims that it is money owed by the municipality as standing time. This is the time when his plant was on site while doing nothing and they claim that this is due to the fault of the municipality. The case has been closed.

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
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47. Contingencies (continued)

2. Tamsanqa Dotyeni vs Nyandeni Local Municipality (Case no. 2070/2010)

In this matter the municipality is being sued for a sum of R 1 000 000.00 (one million rand) by the plaintiff who claims that his child was killed (when he drowned in a hole) as a result of the negligence of some municipal employee who had failed to close a hole that had been dug when Thabo Mbeki township was being constructed. The municipality is defending the matter on the basis that it is not the municipality who constructed the township and therefore it has never been the responsibility of the municipality to close the said holes. The matter has become dormant and is closed.

3. Selina Nontembeko Matanda vs Nyandeni Local Municipality (Case no. 2071/2010)

In this matter the municipality is being sued for a sum of R 1 000 000.00 (one million rand) by the plaintiff who claims that his child was killed (when he drowned in a hole) as a result of the negligence of some municipal employee who had failed to close a hole that had been dug when Thabo Mbeki township was being constructed. The municipality is defending the matter on the basis that it is not the municipality who constructed the township and therefore it has never been the responsibility of the municipality to close the said holes. The matter has become dormant and is closed.

4. Mabandla vs Nyandeni Local Municipality.

The municipality is being sued for a sum of R100 000 by the above mentioned person as a result of a labour dispute. The case has been closed.

5. Makateko Tobile Wilson vs Nyandeni Local Municipality (Case no. 2298/2019).

In this matter the municipality is being sued for a sum of Eleven Million (R11 000 000) for an alleged construction of a drainage system on the Plaintiff's property and thereby depriving the Plaintiff of the use of the property.

6. Nonkumbulo Buso vs Nyandeni Local Municipality (Case no. EC/MTHA/RC425/2019).

In this matter the municipality is being sued for a sum of R400 000.00 for damages incurred as a result of the flooding of the Plaintiff's homestead and damage to his goods. The municipality is alleged to have failed to install a proper drainage system.

7. Tiny Mandisa Buso vs Nyandeni Local Municipality (Case no. 3803/2019).

In this matter the municipality is being sued for a sum of R200 000.00 for damages incurred as a result of the flooding of the Plaintiff's homestead and damage to his goods. The municipality is alleged to have failed to install a proper drainage system.

8. Vuyisile Alex Notay vs Nyandeni Local Municipality (Case no. 3805/2019).

In this matter the municipality is being sued for a sum of R200 000.00 for damages incurred as a result of the flooding of the Plaintiff's homestead and damage to his goods. The municipality is alleged to have failed to install a proper drainage system.

9. Zukisani Zukile Mpeto vs Nyandeni Local Municipality (Case no. RC/58/2021)

This is a claim for a sum of R400 000, for injuries that occurred to the Plaintiff while he was temporarily employed by the municipality and he was on guard at the pound.

10. Phumzile Tokwe vs Nyandeni Local Municipality (Case no. Rc/57/2021).

This is a claim for a sum of R400 000, for injuries that occurred to the Plaintiff while he was temporarily employed by the municipality and he was on guard at the pound.

11. Zameka Golode vs Nyandeni Local Municipality and others (Case no. 115/18)

The municipality is being sued for a sum of R200 000 for alleged unlawful arrest by the municipality of a person who was caught vandalising municipal property.

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
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47. Contingencies (continued)

12. Ndiphiwe Qaku vs Nyandeni Local Municipality (Case no. 3804/2019)

The municipality is being sued for a sum of R200 000 for damages incurred as a result of the flooding of the Plaintiff's homestead and damage to his goods. The municipality is alleged to have failed to install a proper drainage system.

13. Xhathalaza Mzontsundu vs Nyandeni Local Municipality (Case no, 3743-2018)

The matter has been finalised with judgement in favour of the applicant. The two municipalities were ordered to fix the drainage at an amount of R300 000.

Contingent assets

Contingent Assets

Nyandeni Local Municipality vs Municipal Councillors Pension Fund	3 396 486	3 396 486
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1. Nyandeni Local Municipality vs Municipal Councillors Pension fund

The municipality has lodged legal proceedings against the pension fund to release the municipal councillors pension monies that is worth R 3 396 486 of the municipality and the case is now to be enrolled on the opposed roll for argument.

2. Siyaphambili Trading vs Nyandeni Local Municipality and Others (Case no.1454/13)

An application was brought against the municipality, the Municipal Manager and Alexander Maintenance for the review and setting aside of the decision of the Municipal Manager to award the tender of Nothintila to Mvilo access road to Alexander Maintenance. The decision was first taken on appeal to the Executive Committee which upheld the decision of the Municipal Manager. The municipality opposed the matter and the matter has been decided in favour of the municipality with costs.

48. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

49. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure - current year	2 069 789	4 389
Less: Amounts written off - current year	(2 069 789)	(4 389)
	-	-

Amounts written-off

During the current year, the municipal manager, Mrs N. Nomandela was suspended on the 17 Decemeber 2020. The Council er agreed on a settlement amount which was effectively paid on 25 June 2021. After the council committee investigation, council : write-off an amount of R2 069 789 from the total fruileless and wasteful expenditure amount.

Interest charged on late payments	2 037	4 389
Settlement	2 067 752	-
	2 069 789	4 389

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
50. Irregular expenditure		
Opening Balance	103 504 260	4 332 348
Add: Irregular Expenditure - current period	147 797 249	29 278 525
Add: Irregular,Expenditure prior period	-	103 504 260
Less: Amount written off - current	(147 797 249)	(29 278 525)
Less: Amount written off - prior period	(103 504 260)	(4 332 348)
	<u>-</u>	<u>103 504 260</u>

The irregular expenditure relates to the non- compliance on composure of the bid adjudication committee in line with the supply chain management regulation 29. The municipality investigated the irregular expenditure and it was recommended that it should be written off.

There were no disciplinary steps taken for the irregular expenditure for the current year.

51. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	1 841 916	1 720 503
Amount paid - current year	(1 841 916)	(1 720 503)
	<u>-</u>	<u>-</u>

Audit fees

Current year subscription / fee	3 406 125	2 842 129
Amount paid - current year	(3 406 125)	(2 842 129)
	<u>-</u>	<u>-</u>

PAYE

Current year subscription / fee	24 705 474	23 272 875
Amount paid - current year	(24 705 474)	(23 272 875)
	<u>-</u>	<u>-</u>

Pension and Medical Aid Deductions

Current year subscription / fee	22 920 348	19 299 268
Amount paid - current year	(22 920 348)	(19 299 268)
	<u>-</u>	<u>-</u>

VAT

VAT receivable	3 157 585	5 332 077
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VAT output payables and VAT input receivables are shown in note 7.

All VAT returns have been submitted by the due date throughout the year.

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
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51. Additional disclosure in terms of Municipal Finance Management Act (continued)

Related Parties

Councillors' arrear consumer accounts:

the following Councillors had arrear accounts outstanding for more than 90 days at 30/06/2021

30 June 2021	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor S. Qaqa	618	11 242	11 860
Councillor P. Godongwana	104	1 928	2 032
Councillor F. Gaxeni	104	1 055	1 159
Councillor Z. Mevana	-	238	238
Councillor L. Mziba	2 218	64 531	66 749
Councillor N. Devete	104	310	414
Councillor N. Yehana	778	17 881	18 659
Councillor N. Gqetywa	104	32 729	32 833
Councillor T.H Mbiko	95	2 633	2 728
	4 125	132 547	136 672

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor S. Qaqa	1 064	8 027	9 091
Councillor P. Godongwana	142	1 421	1 563
Councillor F. Gaxeni	177	563	740
Councillor Z. Mevana	-	563	563
Councillor L. Mziba	3 793	51 790	55 583
Councillor N. Devete	45	-	45
Councillor N. Yehana	1 345	13 276	14 621
Councillor N. Gqetywa	177	2 145	2 322
Councillor T. H. Mbiko	162	2 092	2 254
N. Nomandela	2 313	2 868	5 181
Q.F. Q. Madikida	-	1 073	1 073
	9 218	83 818	93 036

Related parties that have been identified by the municipality are section 57 managers and councillors. These related parties are further disclosed in note 31 and note 32.

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved by the Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been approved.

Incident

Impractical to follow official procurement processes

4 438 572

5 096 352

52. Commitments

Authorised capital expenditure

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
52. Commitments (continued)		
Already contracted but not provided for		
Property, plant and equipment	52 826 254	42 858 257

The committed expenditure relates to property, plant and equipment and will be financed by existing cash resources and funds internally generated

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

53. Prior period errors

Statement of Financial Position

	Note(s)	Audited R	Prior year adjustments R	Reclassifying adjustments R	Restated R
Assets					
Current Assets					
Cash and cash equivalents		244 657 092	(649 164)	-	244 007 928
Receivables from exchange transactions		23 221	-	-	23 221
Statutory receivables		2 754 311	-	-	2 754 311
Inventories		373 600	-	-	373 600
VAT receivable		5 332 077	-	-	5 332 077
		253 140 301	(649 164)	-	252 491 137
Non-Current Assets					
Investment property		73 754 900	-	-	73 754 900
Property, plant and equipment		553 655 906	32 628 518	-	586 284 424
Intangible assets		822 731	-	-	822 731
		628 233 537	32 628 518	-	660 862 055
Total Assets		881 373 838	31 979 354	-	913 353 192
Liabilities					
Current Liabilities					
Payables from exchange transactions		16 497 804	-	-	16 497 804
Income received in advance		881 131	-	-	881 131
Retention		10 567 962	-	-	10 567 962
Unspent conditional grants and receipts		5 859 744	-	-	5 859 744
Finance lease obligation		277 311	-	-	277 311
Employee benefit obligation		580 000	-	-	580 000
		34 663 952	-	-	34 663 952
Non-Current Liabilities					
Finance lease obligation		64 764	-	-	64 764
Employee benefit obligation		6 518 000	-	-	6 518 000
Provisions		9 052 533	-	-	9 052 533
Danger Allowance		-	693 700	-	693 700
		15 635 297	693 700	-	16 328 997
Total Liabilities		50 299 249	693 700	-	50 992 949
Net Assets		831 074 589	31 285 654	-	862 360 243
Net Assets					
Accumulated surplus		831 074 575	31 285 655	-	862 360 230

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

53. Prior period errors (continued)

53.1. Cash and cash equivalents

Balance previously reported	244 657 092
Prior year error	(649 164)
	<u>244 007 928</u>

Stanlib bank, Nedbank and FNB call account deposits interest were only captured in the cashbook but not allocated and posted in the general ledger as at 30 June 2020. Upon allocating them they were incorrectly updated in the previous year. The investment accounts have been adjusted accordingly as a result of a correction of error.

53.2 Property, plant and equipment

Balance previously reported	553 655 906
Prior period error	32 628 518
	<u>586 284 424</u>

In 2021 financial year, the municipality received a donation from Department of sports, recreation, arts and culture in relation to the building of two libraries situated in Libode and Ngqeleni. These two library buildings include the office equipment and computer equipment. Such library buildings were available for use in 2018 financial year. In addition, the estimate of the provision of the landfill site rehabilitation was erroneously classified as an expense instead of being classified as an asset. As a result of the prior year correction of error, the affected line items of the annual financial statements were increase in cost and accumulated depreciation for an amount worth R32 628 518.

53.3 Danger Allowance

Prior period error	<u>693 700</u>
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The municipality erroneously provided for danger allowance including the last four months of the previous year i.e. 2019/20 which affected the cut off issue. This error has been rectified.

Nyandeni Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

53. Prior period errors (continued)

Statement of Financial Performance

	Note(s)	Audited R	Prior year adjustments R	Reclassifying adjustments R	Restated R
Revenue					
Revenue from exchange transactions					
Sale of goods		868 944	-	-	868 944
Service charges		325 920	-	-	325 920
Rental of facilities and equipment		197 994	-	-	197 994
Agency services		935 217	-	-	935 217
Licences and permits		2 671 626	-	-	2 671 626
Other operating revenue		1 347 722	-	-	1 347 722
Investment revenue		16 137 657	-	-	16 137 657
Total revenue from exchange transactions		22 485 080	-	-	22 485 080
Revenue from non-exchange transactions					
Taxation revenue					
Property rates		16 668 646	-	-	16 668 646
Interest, Dividends and Rent on Land		950 341	-	-	950 341
Transfer revenue					
Government grants & subsidies		355 869 046	-	-	355 869 046
Fines, Penalties and Forfeits		2 709 949	-	-	2 709 949
Total revenue from non-exchange transactions		376 197 982	-	-	376 197 982
Total revenue		398 683 062	-	-	398 683 062
Expenditure					
Employee related costs		(140 974 696)	-	-	(140 974 696)
Remuneration of councillors		(24 288 814)	-	-	(24 288 814)
Depreciation and amortisation		(35 680 180)	-	-	(35 680 180)
Finance costs		(62 560)	-	-	(62 560)
Debt impairment		(3 095 201)	-	-	(3 095 201)
Inventory consumed		(4 775 708)	-	-	(4 775 708)
Contracted services		(52 781 270)	-	-	(52 781 270)
Transfers and subsidies		(4 603 917)	-	-	(4 603 917)
Lease rentals on operating lease		(60 727)	-	-	(60 727)
General Expenses		(39 877 310)	-	-	(39 877 310)
Total expenditure		(306 200 383)	-	-	(306 200 383)
Operating surplus		92 482 679	-	-	92 482 679
Gain/(loss) on disposal of assets and liabilities		(1 083 377)	-	-	(1 083 377)
Fair value adjustments		2 808 700	-	-	2 808 700
Actuarial gains/losses		1 508 625	-	-	1 508 625
		3 233 948	-	-	3 233 948
Surplus for the year		95 716 627	-	-	95 716 627

53.4 Irregular expenditure

Irregular expenditure to the value of R103 504 260 relating to the prior year was identified as a result of non compliance on composer of the bid adjudication committee which is in line with supply chain management regulation 29. Refer to note 50

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Notes to the Annual Financial Statements

54. Segment information

General information

Identification of segments

The municipality is organised and reports to management based on the primary functional areas. The segments were organised around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives. Segments were aggregated for reporting purposes. Aggregated segments were identified as the segments that generate economic benefits or service potential, and such segments are community and public safety, economic and environmental services, and trading services. Other segments were identified as those that do not generate service economic benefits but are of support services to other segments..

Information reported about these segments is used by management as a basis for evaluating the segments' performances and for making decisions about the allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes.

Below are the segments:

Community and Public Safety

- Community and social services
- Sport and Recreation
- Public safety
- Housing
- Health

Economic and Environmental Services

- Planning and development
- Road Transport

Trading Services

- Energy sources
- Waste Management

Other

This included the support directorates such as finance & administration as well as good governance (executive and council) In addition to other the following items are also included i.e Loss on disposal of assets and liabilities, fair value adjustments, actuarial gains and losses and inventory write-downs

Aggregated segments

Segment surplus or deficit, assets and liabilities

By function

2021

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54. Segment information (continued)

	Statement of Financial Performance			Statement of financial position
	Total segment revenue	Total segment expenditure	Total segment surplus/ (Deficit)	Total segment capital expenditure
Community and public safety				
Community and social services	712 278	16 499 606	(15 787 328)	-
Sport and recreation	2 141	-	2 141	-
Public safety	5 588 443	25 989 583	(20 401 140)	-
Housing	17 324 421	2 950 951	14 373 470	-
Health	-	702 582	(702 582)	-
Economic and environmental services				
Planning and development	189 320	16 953 654	(16 764 334)	-
Road transport	76 398 000	27 574 504	48 823 496	-
Trading services				
Energy sources	5 150 000	11 842 704	(6 692 704)	-
Waste management	525 716	12 417 004	(11 891 288)	-
Other	369 181 886	200 186 838	168 995 048	101 315 741
Total	475 072 205	315 117 426	159 954 779	101 315 741
Reconciliation of non cash items				
Loss on disposal of assets and liabilities			(943 192)	-
Fair Value Adjustments			4 514 081	-
Actuarial gains/(losses)			215 000	-
Inventory (write-downs)			(215 423)	-
			3 570 466	-

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Notes to the Annual Financial Statements

	2021 R	2020 R
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55. Other reporting events - COVID-19

At the end of March 2020, the COVID19 virus was declared a pandemic by the World Health Organisation and by the South African Government. South Africa entered into lockdown on 26th March 2020, which meant that businesses that were not seen as essential had to shut down. The municipality incurred the following expenses relating to COVID-19 pandemic.

COVID-19 Related Expenditure

Resealable plastic bag	3 204	-
Rolls of kitchen towel	102	-
20 litre step one	5 378	-
Litter swinging steel reduce drums	171 500	-
Wheelie bins for Ngqeleni	139 400	-
Refuse Wheelie bins for Libode	165 000	-
Foot pedal sanitiser stand	2 940	-
Infrared no contact digital thermometer	7 200	-
Testing/consultation	-	190 800
Public participation	-	57 375
Latex gloves	-	316 462
Masks 3 ply, face masks	43 794	381 367
Alcohol based hand sanitizer	10 617	910 250
Hand wash liquid soap	-	64 250
Face shields	-	16 650
Disposable litter picker	17 500	23 150
Decontamination	-	71 185
Covid Relief Subsidy	534 000	-
	<u>1 100 635</u>	<u>2 031 489</u>

56. Events after the reporting period

An amount of R234 279 938 on note 50 which is irregular expenditure was written off on the 27th October 2021 as per council resolution 2946.

57. Danger Allowance

Danger allowance provision	<u>693 700</u>	<u>693 700</u>
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